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Ontario Ministry  
of Citizenship  
and Culture

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# Bookkeeping procedures for community groups





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Printed by the Queen's Printer  
for Ontario  
Province of Ontario  
Toronto, Canada.

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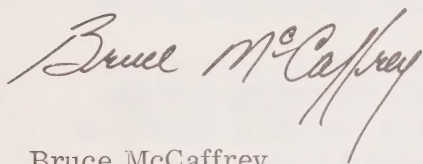
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Toronto for personal shopping. Out-  
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tions Services Section, 5th Floor, 880  
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Telephone 965-6015. Toll free long  
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# Introduction

My ministry has a long-standing commitment to the development of community leadership and volunteerism. Part of that commitment focuses on encouraging individuals and organizations to manage their resources more effectively and efficiently. Proper financial management is one critical component of an organization's continued success in its endeavors. This handbook has been reprinted primarily for the many organizations that rely heavily on volunteer treasurers who may want some basic technical information about financial management.

There are many other publications designed to promote leadership development and encourage self-help on the part of community groups and several of these books are listed at the back of this handbook. Readers' comments and suggestions are most welcome.

I am pleased to be able to support these activities through the leadership program of the Multiculturalism and Citizenship Division of my ministry.

A handwritten signature in cursive script that reads "Bruce McCaffrey". The signature is written in dark ink and is positioned above the printed name and title.

Bruce McCaffrey  
Minister of Citizenship and Culture



# Foreword

Many community groups across the province have expressed their need for a simplified yet comprehensive handbook on bookkeeping procedures. In response to this need, the leadership program, Multicultural and Citizenship Division, of the Ministry of Citizenship and Culture has published an amended edition of a handbook which was originally prepared by the National Council of Welfare in 1973 for low income citizens groups.

This 1976 edition of the handbook has been revised to reflect a number of changes:

- the information in this book pertains solely to Ontario regulations and reflects 1975 requirements
- examples illustrate the concerns and needs of a fictional Ontario community group
- the references to low income groups have been deleted as these bookkeeping procedures would be appropriate for use by any type of community group.

We would like to recognize the generosity and co-operation of the National Council of Welfare in permitting us to reprint a significant portion of their publication. The original cover of their book has been included for reference and acknowledgement as the inside back cover of this handbook.

This handbook is intended only as a guide and some groups will have special needs which may not be covered. Others will have already met their needs with quite different systems. This book, then, represents a resource to those who find it helpful as such.

There are two main sections. The first is entitled BOOKKEEPING FOR THE NEW GROUP. A basic bookkeeping system is presented, and the fundamental concepts and procedures are described. The second part, BOOKKEEPING FOR THE MORE ADVANCED GROUP, deals with some of the bookkeeping problems which a group may encounter as it expands its operation and comes to have larger amounts of money to manage.

By way of example the handbook traces the history of a typical community group through the several stages of its evolution and illustrates how a basic bookkeeping system may be expanded to meet the developing needs of the group.

# Bookkeeping for the new group

## WHY KEEP BOOKS?

Most organizations—even very small ones—cannot involve every member in every action or decision. Certain tasks, particularly more-or-less routine tasks, have to be delegated to smaller groups of members if they are to get done. This applies to almost any part of a group's activities: telephoning members about a meeting, writing stories for a newsletter, drafting reports and proposals for the whole group to consider. It especially applies to handling the day-to-day finances of a group. Bills have to be paid. Small items have to be bought. Most groups realize that someone has to be responsible for seeing that these things get done. That person is usually designated the treasurer.

When a group delegates authority to a treasurer, it will expect to receive reports on what the treasurer has done on behalf of the group. To prepare such reports the treasurer has to keep a record. A bookkeeping system is the treasurer's means of keeping this record of what he has done with the group's money.

The purpose of the bookkeeping system, then, is to keep track of the financial affairs of an organization:

- to know where the group's money has come from
- to know what the money has been spent on, and when
- to know how much money is left
- to know what items of value the group has
- to know what debts the group still has to pay

This means that quite a bit of information has to be recorded, even for a small group with only a small amount of money. As a group grows and gets more money, the volume of information also grows. And the problem of keeping track of all the financial affairs becomes more complicated. That's because most groups have to report not only to their own membership, but also to the organizations which have provided them with funds - often churches, community funds or governments.

The amount of information which has to be recorded, and the precision which is usually required, may make bookkeeping seem like a very difficult, confusing and time-consuming task. And it would be, if every group had to start from scratch and figure out a whole set of consistent rules on how to keep books.



Fortunately, this isn't necessary. A very complete set of standard rules for bookkeeping and accounting already exists. But since these rules are intended to cover a whole range of circumstances-everything from a small organization with little more than a chequing account to a large multi-national corporation-it is sometimes difficult to determine how they should be applied to a specific situation. Once the principles behind these rules are understood, however, their application can be relatively easy.

It is important to remember that the rules of standard bookkeeping do not require that every group use exactly the same bookkeeping system. The rules are very flexible and they can lead to many different types of systems. This report sets forth one such system. Many others are possible and as long as they obey the basic rules they are every bit as right as the system set out in this report.

## OPENING THE CHEQUING ACCOUNT

Most citizen groups come into being with no money, no property, and really nothing of cash value. And for a long time the group may continue with little or nothing of cash value. Then one day the group gets a small amount of money, perhaps by charging dues to its members, or from some special fund-raising event, or from a small grant. Suddenly there is a need for some system to keep track of the money. What the group decides to do at this point may affect whether it will have a hard or an easy time managing its financial affairs for a long time to come.

The first thing a group should do when it receives some money is to open a chequing account. Even if there is only a small amount of money, a chequing account is important. A chequing account provides an accurate record of how much money has come in and how much money has been paid out. It allows the treasurer to make a fast and easy determination of when payments were made if a dispute should arise.

As soon as money is received by the organization it should be immediately deposited into the account. Again, the size of the deposit doesn't matter. Cheques or cash left around an office can be easily misplaced.



People or organizations that give money to a group-especially a new group-may question if the money is being properly used if they do not get back their cancelled cheque within a reasonable time after making the donation.

All the money which a group receives should go into the chequing account. There should never be an exception. Even if a group receives some cash and the money is needed to make an immediate purchase, the cash should be deposited into the account and then a cheque issued for the payment. Otherwise there is no adequate record of the money. Likewise, all payments should be by cheque. The exception of a petty cash system will be discussed later.

Banks usually offer their customers several kinds of accounts. The one which is the best for groups of all kinds is a Current Account which is one type of chequing account. With such an account, the bank sends its customers a monthly statement showing all the transactions—deposits and cheques—on the account during the month. The bank also returns all of the cheques issued by the organization.

In order to open a current account, the group must first choose signing officers—the people who are going to be authorized to sign cheques for the organization. Most groups require that two members must sign all cheques. This gives some protection to the person signing that he won't be accused of using the money improperly. It also protects the group against someone making off with their funds. It is usually a good idea to designate three persons as signing officers, and then to require that all cheques must have the signatures of two of them. The reason for this is that if only two people are given signing authority, and one happens to be unavailable to sign a cheque, no bill could be paid. Some groups require that one of the signers of all cheques must be the treasurer, since he is usually the one who is responsible for reporting all expenses. Other groups find it easier to allow any two of the three signing officers to sign cheques. As a general rule it is probably best that the treasurer, whenever possible, be one of the signers on all cheques.

All chartered banks have the necessary forms to open current accounts for an organization. Banks have different forms for incorporated and unincorporated groups. A new community group would almost certainly be unincorporated and the appropriate forms should be obtained. They are the same forms which are used for lodges and churches. The group will have to complete the form and also a card with sample signatures of each of the signing officers. This card is kept on file at the bank and used to verify if a cheque is valid. The group should be certain

to keep an extra copy of the completed form in its own files. If there are any questions about what information to put in any blank, or who should sign where, ask the bank manager.

As soon as the forms have been completed and returned, the bank can immediately open an account for the group. The person who returns the forms to the bank should be sure to ask for, and to carefully record, the account number. The bank will provide the group with a book of deposit slips and temporary blank cheques. The name of the group and the account number should be written on every cheque and deposit slip. Within a few weeks the bank will supply personalized cheques which have the name of the group and the account number printed on them. As soon as these arrive the unused temporary cheques should be ripped up and thrown away.

#### An Example: The Citywide Action Group

The Citywide Action Group is an imaginary group of concerned citizens living in Centretown, Ontario, who organized in January 1975 around the issues of poor housing and lack of recreational facilities. There were only ten members in the beginning and for the first two months the group operated with no money at all. It quickly became clear to the members that they needed some money to buy paper for notices, stamps, and other expenses, so a few members volunteered to form a funding committee and speak to the ministers of the city's churches. One of these, the First Church of Centretown, agreed to make a \$200 grant to the organization. On March 15, 1975, the president received a cheque from the church for \$200 made payable to the Citywide Action Group.

The day after the cheque was received (March 16) the group called a meeting and decided they would use the Centretown National Bank as the organization's bank. Ms. Anne Jones, the group's treasurer, was authorized to go to the bank and get the necessary forms. The group further decided that the signing officers would be Ms. Jones, Ms. Pat Smith, the president, and Mr. Ken Douglas, the secretary. They decided that any two of these could sign cheques. All of these decisions were recorded in the minutes of the meeting.

That afternoon Ms. Jones went to the bank and got the forms. They were completed and signed by the group's officers:



Figure 1

Form 107D  
Signing Authority, Lodges,  
Societies, Churches, etc.

To The Centretown National Bank

FIFTH AND PRINCE Branch

You are hereby advised that the following resolution was passed at a meeting of the  
CITYWIDE ACTION GROUP, duly called  
(Full name of Organization)  
and held on the SIXTEENTH day of MARCH 1975.

ON MOTION IT WAS RESOLVED THAT the PRESIDENT  
(Show titles, not names)

† If words not applicable delete

† and the TREASURER

† or SECRETARY OR ANY TWO OF THEM

is/are authorized for and in the name of the aforesaid organization to transact generally with the said Bank any business relating to banking including the execution and delivery of any and all agreements, documents and instruments required by the Bank; and without limiting the generality of the foregoing to do the following:

1. To carry on account with The Centretown National Bank,
2. To draw, accept, sign and make all or any bills of exchange, cheques and orders for the payment of money, and
3. To pay and receive all moneys and give acquittances for the same, and
4. To rent safety deposit boxes and have access thereto and to surrender the same, and
5. To execute a Night Depository Agreement with the Bank.

And that any of the foregoing officers is authorized

- (a) To endorse for deposit or collection, all or any bills of exchange, promissory notes, cheques or orders for the payment of money, and
- (b) To receive pass books and vouchers and give receipts for the same and to confirm balances.

This resolution shall continue in force until notice in writing of its revocation has been given to you.

CERTIFIED a true copy.

DATED the SEVENTEENTH day of MARCH 1975.

Ken Douglas Secretary (SEAL)  
Anne Jones

\* (If the Secretary alone is authorized to sign, this form must be signed by another officer as well as the Secretary).

Names of the officers, and their respective titles:

PATRICIA SMITH PRESIDENT

KEN DOUGLAS Secretary

ANNE JONES Treasurer


(Rev. 6-62)

NAME OF CORPORATION OR FIRM OR INDIVIDUAL IN FULL <b>CITYWIDE ACTION GROUP</b>		ACCOUNT NO <b>233-789-857</b>
CHEQUES TO BE SIGNED BY <b>PRESIDENT AND TREASURER OR SECRETARY OR ANY TWO OF THEM</b>		
POSITION AND/OR NAME	SPECIMEN SIGNATURE	
<b>PRESIDENT</b>	<i>Patricia Smith</i>	
<b>SECRETARY</b>	<i>Ken Douglas</i>	
<b>TREASURER</b>	<i>Anne Jones</i>	
<b>MARCH 17 1975</b>		The Centretown National Bank

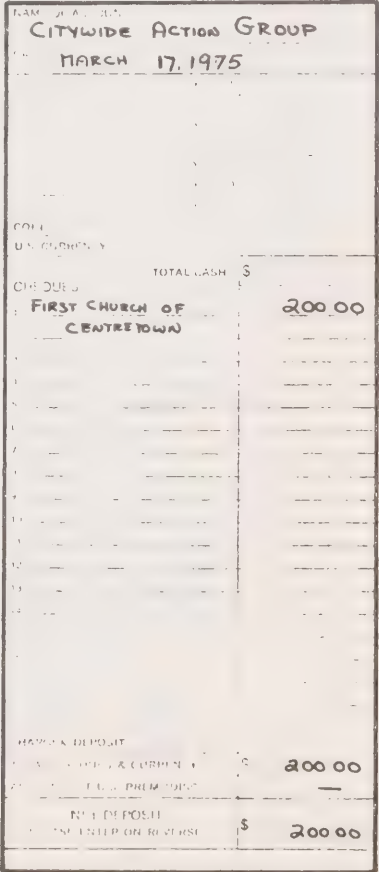
Upon returning the forms to the bank on March 17, Ms. Jones was told that the group's account number would be 233-789-857. She was given a deposit book and a book of blank cheques and immediately deposited the \$200 cheque from the church. The deposit slip is shown:

Figure 2

front



back





It should be noted that deposit slips from other banks may look quite different from this one. Whatever kind of slip your bank may use, the important thing is that all of the necessary information is entered completely and accurately.

## THE CHEQUE BOOK

The left part of each page of the cheque book is the stub which remains in the book after the cheque has been removed. It is very important to fill out the stub completely when a cheque is written. The following information should be written on the stub:

- the cheque number
- the date of issue
- to whom the cheque was issued
- the amount of the cheque
- a brief description of the purpose of the payment.

In order to know the amount of money remaining in the bank the treasurer should keep a running balance on the stub. When the account is opened, the first deposit should be recorded in the first stub in the book. After that, the amount of every cheque should be written on the appropriate stub and subtracted from the previous balance. Likewise all deposits should be entered and added.

When a cheque is written it should be filled out completely before it is signed. This means that the

- cheque number must be shown
- the date must be shown
- the name of the payee (the person or company receiving the cheque) must be entered in full
- the amount of the cheque must be entered both in figures and in written form and the two must agree.

Only when all this information has been put on the cheque should the signing officers sign. It is a bad policy to have one of the signing officers sign a quantity of blank cheques. This destroys the whole purpose of having more than one signature on a cheque.

The bill or voucher for which payment is being made should be shown to the signing officers when they sign a cheque so they'll know what they're paying for. After the cheque is signed, the treasurer should record the cheque number on the bill that's been paid.

Coming back to the Citywide Action Group, the treasurer asked the group how the money should be spent. She was authorized to buy a used typewriter, some paper and envelopes, some pens, and some other expendable items for the office.

She bought a \$35 used typewriter from Centretown Equipment Ltd. and bought all of the office supplies for \$11.56 from Ace Office Supplies. Both payments were made by cheque, No. 1 and 2 respectively. The two cheques and stubs looked like:

Figure 3

No. <u>1</u> <u>MARCH 21, 1975</u> Date		No. <u>1</u>	
PAY <u>CENTRETOWN EQUIPMENT</u>		THE CENTRETOWN NATIONAL BANK	
<u>FOR A USED TYPEWRITER</u>		Fifth Street at Prince	
		Centretown, Ontario	
		CURRENT ACCOUNT	
		<u>MARCH 21</u> 1975	
Bal Fwd		PAY TO THE ORDER OF <u>CENTRETOWN EQUIPMENT LTD.</u> \$ <u>35.00</u>	
DEPOSITS		<u>THIRTY - FIVE</u> <u>00</u> / <u>100</u> DOLLARS	
TOTAL		<u>Ken Douglas</u> <u>Anne Jones</u>	
Amount of This Cheque		CITYWIDE ACTION GROUP	
BALANCE		Account No. <u>233-789-857</u>	
No. <u>2</u> <u>MARCH 23, 1975</u> Date		No. <u>2</u>	
PAY <u>ACE OFFICE SUPPLIES</u>		THE CENTRETOWN NATIONAL BANK	
<u>FOR PAPERS, ENVELOPES,</u>		Fifth Street at Prince	
<u>PENS, ETC.</u>		Centretown, Ontario	
		CURRENT ACCOUNT	
		<u>MARCH 23</u> 1975	
Bal Fwd		PAY TO THE ORDER OF <u>ACE OFFICE SUPPLIES</u> \$ <u>11.56</u>	
DEPOSITS		<u>ELEVEN</u> <u>56</u> / <u>100</u> DOLLARS	
TOTAL		<u>Patricia Smith</u> <u>Anne Jones</u>	
Amount of This Cheque		CITYWIDE ACTION GROUP	
BALANCE		Account No. <u>233-789-857</u>	



Sometimes the treasurer may prepare a cheque which is never issued or which is returned without being cashed by the payee. This might be because of a misspelling, the insertion of a wrong amount, or a later decision not to make the payment. Whether this happens before or after the cheque is signed, the cheque should never be thrown away. The treasurer should write VOID across the cheque and on the cheque stub, and tear off the signature part of the cheque. The voided cheque should then be stapled onto its stub.

## STARTING THE JOURNALS

As soon as the chequing account is opened, a group's treasurer should immediately begin a set of books to record every financial transaction made for the group. These books consist of reporting sheets which are called journals.

Every time the group receives money (makes a deposit in its current account) or makes a payment (issues a cheque), the transaction should be recorded in the journals. The best rule is to enter the transaction into the journals immediately after it is done. The less that is left to memory, the better. It is very easy to forget the details of some small donation or expense. At the end of the month when the treasurer tries to balance the books he or she can have a very hard time if something hasn't been recorded.

One of the easiest bookkeeping systems involves the use of three different journals:

- The Receipts Journal in which all of the income of the organization is recorded
- The Cheque Disbursements Journal in which all of the payments (the technical term is disbursements) made by cheque are recorded
- The Petty Cash Journal in which payments made by cash are recorded

For the moment we will consider only the first two and will talk about

The pages of the journal will consist of lined, loose-leaf paper divided into a number of columns. These pages are called journal sheets. Stationery stores usually carry several different kinds with anything from 2 to 24 or more columns. A new group should not need much more than 8 columns. A journal sheet looks like this:

The image shows a blank ledger page with 30 numbered rows and 15 columns. The columns are grouped into five sections labeled a, b, c, d, and e at the bottom. Section 'a' covers columns 1-2, 'b' covers 3-4, 'c' covers 5-6, 'd' covers 7-11, and 'e' covers 12-15. The page is titled 'STANDARD' and 'STANDARD' at the top.



The treasurer should take two journal sheets and title one Receipts Journal and the other Cheque Disbursements Journal. Immediately under the title he should put the month and the year. At the start of every month he should prepare separate new journal pages for that month.

The first column on each page ('a' in Figure 4) is used to record the date when the transaction was made. The next column (usually the widest one, 'b' on Fig. 4) is used for the name of the person from whom money was received or to whom money was paid. Sometimes this column will be headed by the word "Particulars" but we will simply use "Name". In the Cheque Disbursements Journal the next column (c) will be used to record cheque numbers. In the Receipts Journal it is left blank. The next column (d) should be headed by the word "Bank".

The other columns (e) are used to record receipts and payments according to where they came from, or for what they were spent. Stated in this generality it may sound confusing, so it may be easier to examine the Receipts and the Disbursements Journals separately.

As we have stated, the Receipts Journal records all of the income of the group. In the Name column we record the exact name of the person or organization from which the money came. But that doesn't tell us what kind of income it was (why the income was received). It could be a grant. It could be dues. It could be proceeds from a bake sale, or several other things. These other columns record this information. They should each be headed by one or two words describing the kind of income--for example, grants, dues, crafts sale. The headings are up to the treasurer and will vary from group to group, depending on what kinds of income each group has. Once the headings can be clearly understood, there are no required terms.

There is no need to anticipate ahead of time all of the possible types of income that a group might have. If the group only has one or two kinds, that is all it should list. The blank columns can always be used in the future as the need arises.

Once the Journal is set up, making entries is easy. The date should be the date on which the money was deposited into the bank. The name is the exact name of the person or organization that gave the money. Since the money is being deposited into the bank, the total amount put into the bank should be entered into the Bank column. Finally, so that the records will show the nature of this income, the total amount should

be entered under the column which identifies the appropriate type of receipt. All entries in the journals should be made in ink.

Going back to the example of the Citywide Action Group, as soon as the treasurer made the first deposit in the current account (see Figure 2 on page 8), she immediately opened up the Receipts Journal. The group had only one kind of income, a grant, so that was the only kind that was listed. The Receipts Journal looked like:

Figure 5

CITYWIDE ACTION GROUP RECEIPTS JOURNAL MARCH 1975											
SPEAKING											
	DATE	NAME	BANK		GRANTS						
1	1975 MAR 17	FIRST CHURCH OF CENTRETOWN	20000		20000						1
2											2
3											3
4											4
5											5
6											6
7											7
8											8
9											9
10											10
11											11
12											12
13											13
14											14
15											15
16											16
17											17
18											18
19											19
20											20
21											21
22											22
23											23
24											24
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26											26
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28											28
29											29
30											30



The Cheque Disbursements Journal is organized along much the same line. Each of the columns is used to record a different category of expense--for example, office supplies and expenses, babysitting, meals, transportation. The headings will depend on the needs of the group. It's a good idea to put similar expenses into one category--for example, paper, pens, tape, and erasers can be lumped together into "Office Supplies and Expenses". A new group with only a small amount of money will probably have very few kinds of expenses.

Entries are similar to the ones in the Receipts Journal. The date is the date on the cheque. The name is that of the person or company to which the cheque is made. Since the cheque is being written against the group's bank account, the total amount of the cheque should be entered into the Bank column. Finally, the amount should be entered under the appropriate category of expense column. All of the information which is needed to make the journal entry can be obtained from the cheque stubs,

When the treasurer of the Citywide Action Group went to enter the first two cheques (see Figure 3 on page 10) into the Cheque Disbursements Journal, she saw there were two categories of expenses. One was equipment--the typewriter, and the other was office supplies and expenses--the paper, envelopes and pens. So she made only two headings in her Disbursements Journal and recorded the payments as follows:

Figure 6

CITYWIDE ACTION GROUP												
CHEQUE DISBURSEMENTS JOURNAL												
MARCH 1975												
LITHOGRAPHED IN PERMANENT INK												
5	DATE	NAME	#	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES						
1	MAR 21	CENTRETOWN EQUIPMENT	1	35.00	35.00							1
2	MAR 23	ACE OFFICE SUPPLIES	2	11.56		11.56						2
3												3
4				46.56	35.00	11.56						4
5												5
6												6
7												7
8												8
9												9
10												10
11												11
12												12
13												13

At the end of every month each of the columns in the Receipts Journal and the Cheque Disbursements Journal should be totalled by the treasurer. The totals should be recorded right on the journal pages with a double-line underneath them. New journal pages should then be prepared for the next month.

The March totals for the Citywide Action Group have already been entered in Figure 6. The totals of all of the expense columns, added together, should always equal the total in the Bank column.

Even the most careful treasurer will occasionally make a mistake in a journal entry. It is perfectly acceptable to make corrections in the journal as long as they are done neatly. The usual method is to put a single line through the incorrect information--or in the case of numbers, to put a small diagonal slash through each figure. Then enter the correct information directly above the mistake.

If a cheque has been voided (see previous discussion on page 11), the cheque should still be recorded in the Disbursements Journal so that the numerical sequence of cheques in the journal is preserved. The treasurer should write in the date and number of the cheque and then put the word "void" into the Name column. Naturally if the amount of the cheque had already been entered it should be stroked out.

Finally, a word should be said about debit and credit. These are very common terms in bookkeeping and in most bookkeeping systems they appear everywhere, particularly in the journals. Basically, debit is used to mean left and credit means right. In writing this report, however, we have tried to set up a system that avoids using the words debit and credit. Explaining a bookkeeping system in terms of debits and credits can frequently become confusing and, since a good system can be set up that doesn't use these words, we think the best thing to do is to avoid them where possible.

## BANK RECONCILIATION

At the end of each month the bank sends a statement along with all of the cheques which have been paid against the account. This is an important document. It will usually arrive during the first two weeks of the new month. If it doesn't come, the bank should be called. It should



Figure 7 shows the bank statement received by the Citywide Action Group for the month of March:

# THE CENTRETOWN NATIONAL BANK

STATEMENT OF ACCOUNT  
RELEVÉ DE COMPTE

Citywide Action Group  
c/o Ms. Anne Jones  
2873 Woodly Avenue  
Centretown, Ontario

ACCOUNT NO  
NO DU COMPTE  
233-789-857  
MAR 31, 1975  
PERIOD ENDED  
PERIODE FINISSANT LE

CURRENT ACCOUNT  
COMPTE COURANT

BALANCE FORWARD  
SOLDE REPORTÉ

BALANCE  
SOLDE  
.00

DEBITS

CREDITS

DATE

35.00  
11.56

200.00 3 17  
3 23  
3 25

200.00  
165.00  
153.44

NO ENCLOSURES	FULL PAGE	TOTAL AMOUNT DEBIT	NO DEBITS	TOTAL AMOUNT CREDIT	NO CREDITS
2		46.56	2	200.00	1
NBRE EFFETS	FEUILLES RELIÉES	MONTANT TOTAL DEBIT	NBRE DEBITS	MONTANT TOTAL CREDIT	NBRE CREDITS
					.00

PLEASE EXAMINE PROMPTLY AND REPORT ANY DIFFERENCE  
IN THIS STATEMENT DIRECT TO THE ACCOUNTANT

S.V.P. VÉRIFIER SANS DÉLAI ET EN CAS D'ERREUR  
AVISER LE COMPTABLE IMMÉDIATEMENT

The first item is the Balance Forward. This means the amount of money which was in the account at the start of the month. Since the account was opened in March, the balance forward is zero. The next item, which appears in the column marked Credits shows that a deposit of \$200 was made on March 17, and the resulting balance in the account was \$200. Then there is an item for March 23 in the Debits column indicating that the bank paid a cheque on the account for \$35.00, reducing the balance to \$165.00. Finally on March 25 the bank paid another cheque for \$11.56 reducing the balance to \$153.44.

In the bank statement, the Debits column is always used to record cheques, and the Credits column is always used to record deposits.

When the statement is received, the treasurer should do the following:

1. Verify that the entries on the debit side of the statement correspond to the amounts on the cheques which are enclosed with the statement. If there is a mistake, the bank should be called.
2. See whether all of the cheques which have been issued by the organization have been paid. This is done by comparing the cheques returned with the statement and the items recorded in the Cheque Disbursements Journal. Each item in agreement is ticked off in the bank statement and in the Disbursements Journal. It is not at all unusual that some cheques written during the month will not have been cashed and cleared by the bank by the end of the month. These are referred to as outstanding cheques and they will be discussed later.
3. Make sure that all of the deposits have been recorded in the bank statement. This is done by going to the Receipts Journal and again ticking off items in agreement in each. Sometimes a deposit made on the last day of the month will not be recorded. If any other deposit is not shown, call the bank.

When these have all been done and the treasurer is satisfied that the bank statement is in agreement with his records, he is ready to prepare his own statement so he can record the fact that there is agreement. This statement is called a Bank Reconciliation Statement and this whole process of showing agreement is referred to as reconciling the bank.

The Bank Reconciliation Statement should be prepared on the same journal page where the cheque disbursements for the month are recorded. If there is no room on that page, it can be prepared on a separate journal sheet which should be put directly behind the month's journal page in the Cheque Disbursements Journal.



The Bank Reconciliation Statement should take the following standard form:

<u>First,</u>	the balance at the start of the month.
<u>Then,</u>	the addition of the total deposits for the month--which can be taken directly from the total of the Bank column of the month's Receipts Journal.
<u>Finally,</u>	the subtraction of the total disbursements for the month--taken from the total of the Bank column of the Cheque Disbursements Journal.

This final amount is the balance at the end of the month. In preparing the next month's statement it will be the opening balance. If this amount agrees with the closing balance on the bank statement, the work is done. Later in the report we'll discuss the further step in more complicated situations where they won't agree.

The Bank Reconciliation Statement for the Citywide Action Group for March 1975 appears on the next page.

Figure 8

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL MARCH 1975									
LITHOGRAPHED IN PERMANENT INK									
DATE	NAME	AMOUNT	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES				
MAR 21	CONTRACTORS EQUIPMENT 1	3500		3500					
MAR 23	ACE OFFICE SUPPLIES 2	1156			1156				
		4656		3500	1156				
BANK RECONCILIATION STATEMENT MARCH 31, 1975									
OPENING BALANCE					NIL				
ADD: RECEIPTS FROM RECEIPTS JOURNAL					\$ 20000				
LESS: DISBURSEMENTS FROM CHEQUE DISBURSEMENTS JOURNAL					4656				
CLOSING BALANCE AS PER BANK STATEMENT AND OUR RECORDS.					\$ 15344				

After preparing the Bank Reconciliation Statement, the treasurer should paper-clip the cancelled cheques to the bank statement and place them in his files. Cancelled cheques and bank statements should always be kept on file because they may be needed later to verify payments.

## PETTY CASH

As we stated earlier, it is generally a good rule for a group to make all of its payments by cheque. There are times, however, when making payments by cheque is impractical. Some member may have to be reimbursed for a small purchase, or may have to make purchases for which payment by cheque would be difficult--like bus tickets or a lunch. The easiest way to handle these kinds of expenses is by establishing a petty cash fund.

The petty cash fund should be used only for the payment of small expenses. Many groups find it useful to set a limit on the amount of any one payment from the fund--\$5.00 for example. Any expense over the \$5.00 limit must be paid by a cheque. Anything under the limit can come from the fund. Other groups specify the kinds of things that can be paid from the fund (say, office supplies and bus tickets only) as well as a limit.

One member of the group should be appointed the custodian in charge of the petty cash fund. He should be the only one who is authorized to make payments from the fund. The custodian of the fund has to assume responsibility for the money. If there are several people who make payments it becomes almost unreasonable for him to be held accountable.

All that is needed to start the fund is the issuance of a cheque to the custodian. As in all cases, the cheque is entered into the Cheque Disbursements Journal. The treasurer should head one of the blank columns in the journal "Petty Cash" or he could use the "Sundry" column which we will discuss later. The cheque stub should record the purpose of the payment as "To open petty cash fund". The custodian then goes to the bank, cashes the cheque, and places the money into a cash box which should be bought by the organization. It should be noted that the cheque opening the fund may be made out to "cash". However, it is a bad policy to issue any cheque out to cash, because if it should ever be misplaced or lost, it could be cashed by anyone who finds it.

The amount which is put into the petty cash fund is up to the group. It should never be very much money. Most groups find that \$25.00 is a good figure.

Sometimes there is confusion as to what a petty cash fund is. Petty cash is a way of making payments in the same way that a chequing account is a way of making payments. It is not an item of expense.



When any member of the group wants to claim money from the petty cash fund he must first submit a petty cash voucher. Packs of vouchers can be bought from a stationery store or the group can make up its own. The voucher should record

- the date of payment
- the name of the person requesting payment
- the amount
- a description of the expense
- the signatures of the payee and of the petty cash custodian.

The vouchers should also be consecutively numbered. If possible, a store receipt substantiating the payment should also be submitted and should be stapled onto the voucher. A voucher should always be completed for every petty cash payment. A receipt by itself is insufficient because it rarely gives all of the details which the treasurer will later need.

When the custodian is satisfied that the expense is a proper one, he should sign the voucher and make the payment from the petty cash fund. The payment should be for the exact amount claimed, so it is a good idea to keep some change in the petty cash box. The person receiving the money should also sign the voucher acknowledging that he has received payment.

After the payment is made, the voucher should be put into the petty cash box. Since the payment was for the exact amount on the voucher, the sum of the cash left in the box and the amount of the voucher will be the same amount as when the petty cash fund was begun. This should always be the case: The amount of cash in the box plus the amounts of all the vouchers in the box must always add up to the total of the petty cash fund -- the amount of money which was originally put into the fund.

An example may clarify any questions. In early April 1975 the City-wide Action Group decided that it needed a petty-cash fund. It was decided that \$25.00 was a good amount and John Arnold was asked to be the custodian. Mr. Arnold was given a cheque for \$25.00 and he immediately cashed it. The entry in the Cheque Disbursements Journal looked like:

Figure 9

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL APRIL 1975											
LITHOGRAPHED IN PERMANENT INK											
STERLING	DATE	NAME	CHEQUE #	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	PETTY CASH				
NO. 58-872 8 COLUMN	1 APR 5	JOHN ARNOLD	3	2500			2500				1
	2										2
	3										3
	4										4
	5										5
	6										6
	7										7
	8										8

Mr. Arnold decided to design his own petty cash vouchers which he had mimeographed at a local church:

Figure 10

CITYWIDE ACTION GROUP Petty Cash Voucher	
Voucher No. _____	Amount \$ _____
Date _____	
Name of Claimant _____	
Description of Payment _____	
Signature of Custodian _____	
Signature of Claimant _____	

On April 10, Ms. Jones asked to be reimbursed \$3.00 to cover the costs of a meal and transportation. She completed a voucher and was given the money. The petty cash box now had \$22.00 in cash and a voucher for \$3.00--which totalled \$25.00. Then Mr. Douglas asked to be reimbursed \$4.40 for the purchase of stamps for the group. He also completed a voucher, attached the receipt he had obtained from the post office, and was paid. Now the box had \$17.60 in cash and vouchers totalling \$7.40--which again add up to \$25.00. And so on.

When the petty cash fund has expended most of its money, it becomes necessary to reimburse the fund. How much is to be reimbursed?

When a group sets up a petty cash fund it must decide how much money it wants in the fund. In the example this was \$25.00. The purpose of reimbursing the fund is to bring it back to this original level. Thus, the amount of the reimbursement must be the same as the amount which has been paid out of the fund. The custodian of the fund should total up all of the vouchers in the cash box and present these to the treasurer who will issue a cheque in the exact amount of the total. This will restore the fund to its original level. It is important that once the fund has been reimbursed, the treasurer should put all of the vouchers into an envelope marked with the date and number of the reimbursement cheque, and the envelope should be filed away. Vouchers for which the fund has been reimbursed should never be put back into the petty cash box.

Most groups do not have to reimburse their petty cash fund very frequently. It is usually a good idea if the fund is always reimbursed on the last day of every month so the treasurer can prepare a complete statement of expenses for the month.

When the petty cash reimbursement cheque is issued, it will naturally be entered into the Cheque Disbursements Journal, with the amount written under the Bank and Petty Cash columns.

But another step is needed, because, as we noted before, petty cash is only a means of making payments and not an expense in itself. It is therefore still necessary to record to whom payments were made and what they were for--office supplies, meals and transportation. This is done through the third of our journals, the Petty Cash Journal.

The Petty Cash Journal is set up just like the other two, except that the first of the money columns is headed Petty Cash Paid, and the small column ('c' in Figure 4, page 12) is headed 'Voucher No.'



At the end of April Mr. Arnold, the petty cash custodian for the City-wide Action Group, had the following vouchers in his box:

- Voucher No. 1 from Ms. Jones for \$3.00 for a meal and transportation (April 10)
- Voucher No. 2 from Mr. Douglas for \$4.40 for stamps (April 14)
- Voucher No. 3 from Ms. James for \$2.50 for a meal (April 19)
- Voucher No. 4 from Mr. Alio for \$4.58 for paper (April 27)
- Voucher No. 5 from Ms. Lefebvre for \$3.00 for transportation (April 27)

There was \$7.52 left in the petty cash box.

The vouchers totalled \$17.48, which together with the \$7.52 remaining in the box, equaled \$25.00. The custodian therefore asked the treasurer for a cheque in the amount of \$17.48 and turned over Vouchers 1-5 to the treasurer. The cheque was dated April 30, 1972, and was made payable to Mr. Arnold; the entry in the Cheque Disbursements Journal can be seen in Figure 14, line 6, on page 31. Mr. Arnold cashed this cheque on April 30 so the amount in his cash box at the end of the month was \$25.00.

The treasurer then took the vouchers and made the following entries in the Petty Cash Journal:

Figure 11

CITYWIDE ACTION GROUP PETTY CASH JOURNAL APRIL 1975									
LITHOGRAPHED IN PERMANENT INK									
STANDARD NO. SR-872 B COLUMN	DATE	NAME	VOUCHER #	PETTY CASH PAID	MEALS AND TRANSPORTATION	OFFICE SUPPLIES AND EXPENSES			
1	1975 APR 10	ANNE JONES	1	3.00	3.00				1
2	APR 14	KEN DOUGLAS	2	4.40		4.40			2
3	APR 19	ANNE JAMES	3	2.50	2.50				3
4	APR 27	GEORGE ALIO	4	4.58		4.58			4
5	APR 27	HÉLÈNE LEFEBVRE	5	3.00	3.00				5
6									6

At the end of every month a Petty Cash Reconciliation Statement should be prepared and entered into the Petty Cash Journal. It is very similar to the Bank Reconciliation Statement that has already been described:

- First,        the opening cash on hand at the start of the month.
  
- Then,        the addition of the total payments made to the petty cash fund, which is taken from the total of the Petty Cash column in the Cheque Disbursements Journal.
  
- Finally,     the subtraction of the amount of all the vouchers paid, which is the total of the Petty Cash Paid column of the Petty Cash Journal.

The final amount should be the same as the amount of cash in the cash box. This is also the amount which will be used in preparing the next month's reconciliation as Opening Cash on Hand.

The Petty Cash Reconciliation statement for the Citywide Action Group was as follows:

Figure 12

CITYWIDE ACTION GROUP PETTY CASH JOURNAL APRIL 1975									
LITHOGRAPHED IN PERMANENT INK									
STEERING NO. 5R 872 8 COLUMN	DATE	NAME	VOUCHER #	PETTY CASH PAID	TRAVEL AND TRANSPORTATION	OFFICE SUPPLIES AND EXPENSES			
1	1975 APR 10	ANNE JONES	1	300	300				1
2	APR 14	KEN DOUGLAS	2	440		440			2
3	APR 19	ALICE JAMES	3	250	250				3
4	APR 27	GEORGE ALIO	4	458		458			4
5	APR 27	HELENE LEBEVRE	5	300	300				5
6									6
7				1748	850	898			7
8									8
9									9
10									10
11									11
12									12
13									13
14		OPENING CASH ON HAND AT START OF MONTH				NIL		(FUND STARTED IN APRIL)	14
15									15
16		ADD: CASH REIMBURSEMENTS FROM CHEQUE DISBURSEMENTS JOURNAL				\$ 4248			16
17									17
18									18
19		LESS: VOUCHERS (AS ABOVE)				1748			19
20									20
21		CASH ON HAND AT END OF MONTH				\$ 2500		(AGREES WITH THE AMOUNT OF CASH IN THE CASH BOX)	21
22									22
23									23
24									24
25									25
26									26
27									27
28									28
29									29
30									30

One final word on petty cash is in order. The petty cash fund should never be used to make personal loans. If the petty cash custodian is asked to make such a loan, he should always refuse, and the group should back him in this refusal. Likewise the petty cash fund should not be used to cash members' cheques.



MORE ON THE JOURNALS

As we have already said, each entry in the journals has two parts: First, the amount has to be put into the Bank column--for the Receipts and Disbursements Journals, or the Petty Cash Paid column--for the Petty Cash Journal. Then the amount must be entered again under the column which describes the type of receipt or payment.

This is because every transaction has two sides. In the case of a receipt, the money has to go into someplace--the bank, and it has to come from someplace--grants, dues, a bake sale or whatever. In the case of a disbursement, the money has to come from someplace--the bank, in the form of a cheque, or from the petty cash fund. And it has to go towards the payment of something--office supplies, meals and transportation. Every standard bookkeeping system is built around this idea that a transaction has to have two sides. That is why it is called double-entry bookkeeping.

In all the examples we have used so far we have always had the exact same figure entered twice on every line. This is because each example has involved a payment or a receipt for items which have fit exactly into one of our categories of expenses.

It may happen, however, that a payment is made which includes items that fit into several different categories. How should the treasurer record this in the journal?

First, of course, the total payment should be entered into the Bank column. Then, the amounts corresponding to each category of expense should be entered in each of the appropriate columns. There is only one basic rule: For each entry, the amount which is entered into the Bank column (Receipts and Disbursements Journal) must equal the sum of the amounts entered into all of the other columns. In the Petty Cash Journal the same applies for the Petty Cash Paid column. If you consider the two sides of each transaction, this is an obvious rule.

For an example of this kind of split entry, consider a payment of \$24.68 made by the Citywide Action Group on April 7 to the Ace Office Supplies Company. The items purchased were:

Paper	\$ 4.67
Index Cards	3.89
Typing Stand	15.25
Pencils	.87
	<u>\$ 24.68</u>
	<u><u>          </u></u>

The treasurer decided that the paper, index cards and pencils were all office supplies. The typing stand, however, was equipment. She therefore had to enter \$15.25 under the Equipment column and \$9.43 under Office Supplies and Expenses. The entry can be seen on line 2 of Figure 14, page 31.

As we stated earlier, the designation of the columns in each of the Journals is up to the group and will depend on the kind of expenses and income the group has. It may happen, however, that there will be more categories of expenses than there are columns on the page.

One solution is to get pages with more columns. Sheets with up to 24 columns or more can be bought at most stationery stores. These large sheets can be very cumbersome to work with, and they can also get to be expensive. And it frequently happens that some of the kinds of expenses are encountered only occasionally.

An easier solution is to designate the two right-most columns on the page as "Sundry". At the head of the first of these columns should be written the word "Description" and at the head of the second "Amount". Then whenever a category of expense is encountered which does not have a column of its own, the heading for that category should be entered into the Description column and the amount into the Amount column. Only those categories of expense that are used frequently should be given a column of their own. All the rest can be listed under the Sundry column.

It is worth repeating that as a general rule the number of categories should be kept to a workable minimum. As a group develops and operates for a while, the treasurer will get a better idea of what categories are really necessary and which can be combined with others. For example, should there be a separate category to record telephone expenses or can this be grouped into a general Rent, Utilities and Services category? A group that has to make frequent long-distance calls and that is on a limited budget may need a separate Telephone category so it can control expenditures and easily make comparisons from one month to the next. A group that has only the basic monthly service charge with the rare long-distance call might want to lump telephone expenses into the broader category. Everything depends on the needs of the group and these can only be learned from experience.

Going to our example again, the Citywide Action Group had a phone installed in early April in a small office donated by a church. The treasurer paid a bill for installation and service charges on April 25 for \$25.89. She decided that she would create a general category of

Rent, Utilities and Services. Since this was the only item she thought would fit into this category during the month, she entered it in the Sundry columns. The entry can be seen on line 4 of Figure 14 on page 31.

To complete the example of the April transactions of the Citywide Action Group, consider the rest of the group's receipts and disbursements:

Receipts:

- April 8, \$25.80 from an arts and crafts sale
- April 25, \$35.00 grant from the United Workers Union

Disbursements: (in addition to the ones already discussed on pages 22, 23, 25, 28, 29, 30)

- April 15, \$7.00 to Ms. Jones to reimburse her for the cost of a babysitter while she was doing volunteer work for the group
- April 25, \$9.00 to Mr. Alio, also for babysitting costs.

The April Receipts and Disbursements Journals looked like:

Figure 13

CITYWIDE ACTION GROUP RECEIPTS JOURNAL APRIL 1975										
STENOGRAPHED IN PERMANENT INK										
STERLING	DATE	NAME	BANK		GRANTS		CRAFT SALE			
1	1975									1
2	APR 8	CASH FROM CRAFT SALE	2580				2580			2
3	APR 25	UNITED WORKERS UNION	3500		3500					3
4			6080		3500		2580			4
5										5
6										6
7										7
8										8
9										9
10										10
11										11



Figure 14

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL APRIL 1976											
LITHOGRAPHED IN PERMANENT INK											
STERLING	DATE	NAME	CHEQUE NO	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	PEITY CASH	BABYSITTING	DESCRIPTION	AMOUNT	
1	APR 5	JOHN ARNOLD	3	2500			25 00				1
2	7	ACE OFFICE SUPPLIES	4	2468	1525	943					2
3	15	ANNE JONES	5	700							3
4	25	ONTARIO TELEPHONE	6	2589				700	RENT, UTILITY AND SERVICES	25 89	4
5	25	GEORGE AWO	7	900				900			5
6	30	JOHN ARNOLD	8	1748			17 48				6
7											7
8											8
9											9

Naturally a running balance was kept on the cheque stubs. At the start of the month, it will be remembered, the balance was \$153.44. At the end of the month, after all the transactions described above, it was \$105.19.

AND MORE ON BANK RECONCILIATION

Banks charge their customers for providing them with Current Accounts. These costs are called service charges and are computed on the basis of the number of transactions during the month and on the minimum balance during the month. Since banks have different procedures for computing these service charges, a group interested in knowing how their charges are arrived at should ask their own bank. Banks automatically deduct service charges from accounts, generally on the last business day of the month. The month's service charge is always shown on the bank statement with the letter S next to the amount.

Since the service charge is a disbursement, even though not one made by cheque, and affects the bank balance, it must be entered into the Cheque Disbursements Journal just as if it were a normal payment. The service charge for each month should be entered into that month's page in the Disbursements Journal. That means that the columns of

the Cheque Disbursements Journal should not be totalled until the Bank Statement for the month has been received.

Also, the service charge must be deducted from the running balance on the cheque stubs. It is particularly easy to forget to do this so special care should be taken.

Once the service charge is entered into the Disbursements Journal and the cheque stubs, the columns of the Journal can be totalled and the Bank Reconciliation Statement prepared.

As we mentioned before, it is very possible that there will be some outstanding cheques - that is, cheques which have not been cashed and cleared by the bank during the month. Using the method described on page 18 the treasurer will be able to identify easily which cheques are outstanding. He should make a list of the cheque number, name of payee, and amount of each item in the Journal which is not ticked.

If there are outstanding cheques, the closing balance on the bank statement will naturally be larger than that shown on the cheque stubs, so an extra step will be needed in preparing the Bank Reconciliation Statement.

The first part of the Bank Reconciliation Statement will be exactly as described before:

First,      the balance at the start of the month--same  
                 as the closing balance of the previous month.

Then,      the addition of the total deposits for the month--  
                 from the Receipts Journal.

Then,      the subtraction of the total disbursements--  
                 from the Disbursements Journal, which will  
                 now be the sum of all the cheques plus the  
                 service charge.

This will give what is called the true bank balance, that is, what the bank statement would show if all of the cheques issued during the month had been cashed and cleared during the month. The true bank balance will be used as the opening bank balance in the next month's Bank Reconciliation Statement.

The extra step in reconciling the bank is to subtract from the closing

balance on the bank statement the amounts of the outstanding cheques. The reason for subtracting these amounts is that when they do get cashed and cleared they will reduce the balance in the account as shown in the bank's records. NOTE: If there is an outstanding deposit--one that hasn't been recorded on the bank statement--it should be added to the closing balance on the bank statement, and then the total of the outstanding cheques subtracted.

This additional step should give the true bank balance again. If it doesn't, everything should be rechecked. Perhaps there is simply an arithmetical error, or, more serious, some receipt or disbursement may not have been properly recorded.

Going back again to the Citywide Action Group, the April bank statement arrived in early May. Figure 15

THE CENTRETOWN NATIONAL BANK

STATEMENT OF ACCOUNT  
RELEVÉ DE COMPTE

Citywide Action Group  
c/o Ms. Anne Jones  
2873 Woodly Avenue  
Centretown, Ontario

ACCOUNT NO.  
NO DU COMPTE  
233-789-857  
APR 30, 1975  
PERIOD ENDED  
PÉRIODE FINISSANT LE

CURRENT ACCOUNT  
COMPTE COURANT

BALANCE FORWARD  
SOLDE REPORTÉ

DEBITS		CREDITS		DATE	BALANCE SOLDE
					153.44
25.00				4 5	128.44
		25.80		4 8	154.24
24.68				4 10	129.56
7.00		35.00		4 25	157.56
17.48				4 30	140.08
.80S				4 30	139.28

NO ENCLOSURES  
NBR ENCLOSURES

4

FULL PAGE  
PÉRIODE

74.96

TOTAL AMOUNT DEBIT  
MONTANT TOTAL DÉBIT

74.96

NO DEBITS  
NBR DÉBITS

5

TOTAL AMOUNT CREDIT  
MONTANT TOTAL CRÉDIT

60.80

NO CREDITS  
NBR CRÉDITS

2

TOTAL SERVICE CHARGE  
TOTAL TAUX DE SERVICE

.80

PLEASE EXAMINE PROMPTLY AND REPORT ANY DIFFERENCE  
IN THIS STATEMENT DIRECT TO THE ACCOUNTANT

5 V.P. VÉRIFIER SANS DÉLAI ET EN CAS D'ERREUR  
AVISER LE COMPTABLE IMMÉDIATEMENT



The treasurer noted a service charge of 80 cents and entered this into the cheque stubs. This reduced the balance on the stubs at the end of April to \$104.39. She also entered it into the Cheque Disbursements Journal. Since the service charge is a once-a-month item, she used the Sundry column. Then she totalled the columns.

In comparing the cheques returned with the statement to those listed in the Journal, she noted that the cheque to Ontario Telephone for \$25.89 and the cheque to Mr. Alio for \$9.00 were outstanding. She then prepared the following Bank Reconciliation Statement:

Figure 16

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL APRIL 1975											
DATE	NAME	CHEQUE #	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	PETTY CASH	BABYSITTING	SUNDRY	DESCRIPTION	AMOUNT	
APR 5	JOHN ARNOLD	3	25.00 ✓			25.00					1
7	ACE OFFICE SUPPLIES	4	24.68 ✓	15.25	9.43						2
15	ANNE JONES	5	7.00 ✓				7.00				3
25	Ontario Telephone	6	25.89						REST, UTILITY AND BUSINESS	25.89	4
25	GEORGE ALIO	7	9.00				9.00				5
30	JOHN ARNOLD	8	17.48 ✓			17.48					6
30	CENTRETOWN AMV BANK		80 ✓						SERVICE CHARGES	80	7
			109.85	15.25	9.43	42.48	16.00			266.9	9
BANK RECONCILIATION STATEMENT APRIL 30, 1975											
OPENING BANK BALANCE, APRIL 1, 1975.						\$ 153.41					
(CARRIED FORWARD FROM LAST MONTH)											
ADD: RECEIPTS FROM RECEIPTS JOURNAL						60.80					
						\$ 214.24					
LESS: DISBURSEMENTS FROM DISBURSEMENTS JOURNAL						109.85					
TRUE BANK BALANCE, APRIL 30, 1975						\$ 104.39					
CLOSING BALANCE ON BANK STATEMENT,											
APRIL 30, 1975.						\$ 139.28					
LESS: OUTSTANDING CHEQUES: #6, Ontario Telephone						25.89					
#7, GEORGE ALIO						9.00					
						\$ 104.39					
							(EQUALS TRUE BANK BALANCE, APRIL 30, 1975)				

During May the two outstanding cheques were cashed and cleared by the bank. They were therefore listed on the May bank statement and returned with that statement. When the treasurer saw these cheques, she went back to the April Cheque Disbursements Journal and ticked off the two entries, indicating that they were no longer outstanding. When outstanding cheques are returned in succeeding months they should never be re-entered into the journals. The treasurer should simply go back to the journal page for the month in which they were issued and put a tick mark next to the entry.

## SUMMARY SHEETS

The three journals give a detailed and complete description of each transaction of the group. It is one of the treasurer's responsibilities to condense all of this information into a financial statement that gives only the most important facts. This is usually a listing of where the money came from and for what it has been spent, along with how much is left.

The first step in the reporting process is the preparation of Summary Sheets. Summary sheets bring together the monthly totals for the various categories of receipts and disbursements over some given period of time. The period being summarized which we'll refer to as the reporting period, is usually from the start of the year to the month just completed.

Separate summary sheets should be prepared for each of the Receipts, Cheque Disbursements, and Petty Cash Journals. To simplify the discussion, let's only consider the Cheque Disbursements Summary.

A regular 8-column journal page is used to prepare the summary sheet. With the exception of the date, name and cheque number columns, the headings for all the other columns should be exactly the same as those which have been used for the monthly Cheque Disbursements Journal pages. The totals for each column for every month in the reporting period are then transferred from that month's journal page to one line on the summary sheet. Then the columns on the summary sheet are totalled.

One additional step is needed if the journal uses a Sundry column.

Since this column combines categories of expenses, it must be further summarized by accumulating the totals for each separate category of expense over the reporting period.

The result is the total disbursements by category of expense for the reporting period. The exact same process holds for the other two journals.

Figure 17 shows the Cheque Disbursements Summary prepared by the treasurer of the Citywide Action Group for the period of March 1 to April 30. See also Figure 8 on page 20 and Figure 16 on page 34 which show where all the amounts came from.

Figure 17

CHEQUE DISBURSEMENTS SUMMARY														
FOR THE PERIOD MARCH 1, 1975, TO APRIL 30, 1975														
LITHOGRAPHED IN PERMANENT INK														
STERLING														
NO. 58 872														
B.L.O. 444														
				BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	PETTY CASH	TRAVEL					SUNDRY	
1	1975	MARCH		4656	3500	1156	0	0					0	1
2		APRIL		10985	1525	943	4248	1600					2669	2
3														3
4		TOTAL		15641	5025	2099	4248	1600					2669	4
5														5
6														6
7														7
8													SUMMARY OF	8
9													SUNDRY ITEMS	9
10														10
11													RENT, UTILITIES	11
12													AND SERVICE	12
13													CHARGES	13
14													2589	14
15													80	15
													2669	

Note that she not only gave a breakdown for the Sundry column, but also added up the amounts to show that they came to the same as the total of the Sundry column above.

The handling of the Sundry column sometimes causes confusion, so we give a further example. Suppose that at the end of June the treasurer prepared the summary sheet and the total of the Sundry column was \$50.99. Going back to the monthly Disbursements Journal pages, she found the following entries under Sundry:



<u>April</u>	Rent, Utilities and Services	\$25.89	
	Service Charges	<u>.80</u>	\$26.69
<u>May</u>	Rent, Utilities and Services	10.50	
	Service Charges	<u>.60</u>	11.10
<u>June</u>	Rent, Utilities and Services	12.00	
	Service Charges	<u>1.20</u>	13.20
			<u><u>\$50.99</u></u>

In preparing the summary of the sundry items she added together the three amounts for Rent, Utilities and Services, and likewise the three amounts for Service Charges. The summary then looked like:

Rent, Utilities and Services	\$48.39
Service Charges	2.60
	<u><u>\$50.99</u></u>

Figures 18 and 19 show the Receipts Summary and the Petty Cash Summary for the Citywide Action Group for the period from March 1 to April 30, 1975:

Figure 18

(See also Figure 5 on page 14 and Figure 13 on page 30)

RECEIPTS SUMMARY FOR THE PERIOD MARCH 1 TO APRIL 30, 1975									
LITHOGRAPHED IN PERMANENT INK									
STERLING				BANK		GRANTS	CRAFTS SALE		
NO. 5A 872									
B. COLUMN									
1	1975	MARCH		20000		20000	—		1
2		APRIL		6080		3500	2580		2
3									3
4		TOTAL		<u>26080</u>		<u>23500</u>	<u>2580</u>		4
5									5
6									6
7									7
8									8

Figure 19

See also Figure 12 on page 27. The petty cash fund wasn't set up until April so there are no March entries.

PETTY CASH SUMMARY									
FOR THE PERIOD MARCH 1 TO APRIL 30, 1975									
DATE	DESCRIPTION	PETTY CASH PAID	MEALS AND TRAVEL	OFFICE SUPPLIES AND REPAIRS					
1 1975	MARCH	0	0	0					1
2	APRIL	1748	850	898					2
3									3
4	TOTAL	1748	850	898					4
5									5
6									6
7									7
8									8

## FINANCIAL STATEMENTS

Once the summary sheets have been completed, the task of preparing a financial statement becomes easy. Totals for each category of expense and receipt are given in the summaries and the job is essentially only one of writing them down in a list. There is one special point to keep in mind, however, and that involves petty cash.

As we stated earlier, petty cash is a means of making payments, not an item of expense. The cheques recorded in the Disbursements Journal and designated for petty cash are payments to reimburse the petty cash fund, or, in the case of the first cheque, to open the fund. The treasurer is simply taking money in one form--a cheque--and changing it into another--cash. The act of writing a cheque to petty cash, cashing it, and putting the cash into the box does not reduce the amount of money which the group has. The group's money is only reduced when a payment is made from petty cash.

Therefore in preparing a statement of expenses, the Petty Cash column in the Disbursements Journal and the Petty Cash Paid column in the

Petty Cash Journal should be entirely ignored. Only the actual expense items in both journals should be used in the calculation.

The statement of expenses lists both the items in the Disbursements Summary and the items in the Petty Cash Summary. It makes no difference if money was paid by cheque or cash. It is still an expense. In preparing the statement of expenses, it may happen that the same category of expense appears in both the Cheque Disbursements and Petty Cash summaries. In this case the amount shown in the statement is the sum of the two totals. For example, looking at Figures 17 and 19 (pages 36 and 38) we see that the Disbursements Summary shows \$20.99 spent on office supplies while the Petty Cash Summary shows \$8.98 for office supplies. The statement would then indicate the total of these, \$29.97, under office supplies.

The financial statement will usually be made up of three parts.

- the statement of income
- the statement of expenses
- the balance remaining

The usual title for this statement is Statement of Income and Expenditures. It should always be headed with the name of the group, the statement title and the reporting period which it covers. The statement will usually have two columns of figures. One shows the income and expenditures for the month just ended. These can be taken from the month's totals in the journals. The other shows the totals for the reporting period. These are taken from the summary sheets.

Figure 20 shows the first financial statement for the Citywide Action Group for the period of March 1 to March 31, 1975.



Figure 20

Citywide Action Group Statement of Income and Expenditures for the month of March, 1975	
<u>INCOME</u>	
Grants	\$ 200.00
	<u>\$ 200.00</u>
<u>EXPENDITURES</u>	
Equipment	\$ 35.00
Office Supplies and Expenses	11.56
	<u>\$ 46.56</u>
<u>BALANCE REMAINING</u>	
Balance on March 1, 1975	NIL
Add: Total Income (March)	\$ 200.00
Less: Total Expenditures (March)	46.56
Balance Remaining on March 31, 1975	<u>\$ 153.44</u>

By referring back to Figure 5 on page 14 and Figure 8 on page 20 it is easy to see where all of the amounts came from.

Figure 21 shows the next financial statement which the treasurer prepared after the end of April and which covers the period of March 1 to April 30, 1975:

Figure 21

Citywide Action Group  
Statement of Income and Expenditures  
for the month of April, 1975  
with cumulative totals for the period  
March 1 to April 30, 1975

	Month ended April 30	For the period March 1 to April 30
<u>INCOME</u>		
Grants	\$ 35.00	\$ 235.00
Arts and Crafts Sale	25.80	25.80
	<u>\$ 60.80</u>	<u>\$ 260.80</u>
<u>EXPENDITURES</u>		
Equipment	\$ 15.25	\$ 50.25
Office Supplies and Expenses	18.41	29.97
Rent, Utilities and Services	25.89	25.89
Babysitting	16.00	16.00
Meals and Transportation	8.50	8.50
Service Charges	.80	.80
	<u>\$ 84.85</u>	<u>\$ 131.41</u>
<u>BALANCE REMAINING</u>		
Balance on April 1, 1975	\$ 153.44	
<u>Add:</u> Total Income (April)	<u>60.80</u>	
	\$ 214.24	
<u>Less:</u> Total Expenditures (April)	<u>84.85</u>	
Balance Remaining on April 30, 1975	<u>\$ 129.39</u>	

For the amounts in the "Month Ended April 30" column, see Figures 12 (page 27), 13 (page 30), and 16 (page 34). For the reporting period amounts, see Figures 17 (page 36), 18 (page 37) and 19 (page 38).

As the example shows, the Balance Remaining portion is calculated in the following way:

<u>First</u>	take the balance on the first day of the month. This is the same as the balance remaining on the last day of the previous month and therefore can be taken from the previous financial statement.
<u>Then</u>	add the total income for the month.
<u>Finally</u>	subtract the total expenditures for the month.

This final amount is the balance remaining at the end of the month and will be used in the next month's statement as the opening balance.

It is also worth noting exactly what the Balance Remaining figure means. The money of the Citywide Action Group is in two places. One is the bank and the other is the petty cash box. Going back to the Bank Reconciliation Statement for April (Figure 16 on page 34), we see that the true bank balance--the amount in the bank on April 30 if all cheques were cashed-- is \$104.39. From the Petty Cash Reconciliation for April (Figure 12 on page 27), the petty cash box had \$25.00 in it on April 30. The sum of these figures is exactly \$129.39, which is what is shown as the balance remaining on April 30, 1975.

The true bank balance and the amount in the petty cash box should always equal the balance remaining. The treasurer may want to prepare a separate statement to show they do agree.



SPECIAL PURPOSE FUNDS

Sometimes a group will receive money which is designated for a special purpose. Since the person or organization giving the money expects that the group will use it only for this purpose, the treasurer will have to keep track of how much specially-designated money has been received and how much has been spent. Usually this can be done very easily within the bookkeeping system which has already been set up.

When the money is received it is put into the chequing account, just like any other income. However in the Receipts Journal the treasurer should open a new category of receipt for these specially-designated funds. Likewise in the Cheque Disbursements Journal he should open a new category of expense, or more than one category if needed, to record the special expenses. Then he can always figure out how much money has been received for any special purpose by totalling the appropriate category of receipt column. And he can figure out how much has been spent by totalling the appropriate category of expense.

For example, suppose that in May the Citywide Action Group received a \$300 grant from the Second Church of Centretown to print a Tenants' Rights Handbook. It was stipulated that the grant could only be used for this purpose. When the grant had been deposited into the chequing account, the treasurer opened a new column in the Receipts Journal headed Grants-Tenants' Handbook. Since the only expense was to be printing cost, she recorded these in the Disbursements Journal under the new category of Tenants' Handbook, for which she used the Sundry columns. Figure 22 shows the Receipts Journal entry recording receipt of the grant, and the Disbursements Journal entry recording the first printing expense:

Figure 22

CITYWIDE ACTION GROUP RECEIPTS JOURNAL MAY 1975									
LITHOGRAPHED IN PERMANENT INK									
5 YEARLING NO. 58-872 8 COLUMN	DATE	NAME	BANK	GRANTS	BAKE SALE	GRANTS - TENANTS' HANDBOOK			
1	1975 MAY 9	SECOND CHURCH OF CENTRETOWN	300 00			300 00			1
2									2
3									3
4									4
5									5
6									6

Figure 22 continued

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL MAY 1975											
PHOTOCOPIED IN PERMANENT INK											
SPENDING	DATE	NAME	CHEQUE #	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	PEITY CASH	BANKING	SUNDRY		
									DESCRIPTION	AMOUNT	
1	MAY										1
2											2
3											3
4											4
5											5
6											6
7											7
8											8
9											9
10	MAY 26	CENTRETOWN PRINTERS	18	17918					TELEPHONE	17918	10
11											11

If the special purpose funds are spent on several different categories of expense, the treasurer may find it to be quite a bit of work to sort these all out of the Sundry column. This is particularly the case if the category headings are the same, or similar to those used to record general expenses. For example, a special project might involve office expenses that would have to be kept distinct from a group's general Office Supplies and Expenses.

An easier method would be to take two columns in the Disbursements Journal and designate them exclusively for the recording of expenses paid from the special purpose funds. These columns would be used in the same way as the Sundry columns. That is, the first would be headed Description and record the category of expense for each disbursement. The second would be headed Amount and naturally record the amount. Then even if the headings for the categories of expense were the same as those used for general funds, there would be no confusion. Further, if the treasurer wants to know how much of the special purpose fund has been used, he only has to total the Amount column.

For example, suppose that in August the Citywide Action Group got a grant for an organizing drive in a local public housing project. The grant could only be used for this purpose. It paid for the telephone in a member's basement being used for a project office, babysitting for volunteer organizers, some office supplies needed in the organizing drive, and some other kinds of expenses. Figure 23 shows the two new

columns which the treasurer opened to record the expenses of the organizing drive. It also shows the first entry in the new columns which records the installation costs of the phone in the project office:

Figure 23

CITYWIDE ACTION GROUP												
CHEQUE DISBURSEMENTS JOURNAL												
AUGUST 1975												
LITHOGRAPHED IN PERMANENT INK												
STERLING	DATE	NAME	CHEQUE #	BANK	OFFICE SUPPLIES AND EXPENSES	PENNY CASH	TRANSFERRING	ORGANIZING DRIVE		SUNDAY		
NO. 58 B72 B COLUMN								DESCRIPTION	AMOUNT	DESCRIPTION	AMOUNT	
1	1975											1
2												2
3												3
4												4
5												5
6												6
7	AUG 7	ONTARIO TELEPHONE	53	3215				RENT, UTILITIES AND SERVICES	32 15			7
8												8

As a general rule it is best to keep all of a group's money in one chequing account and to use the journals to keep track of special purpose funds. Separate chequing accounts--and therefore separate journals--should be used only for large grants that require many different categories of expenses.

THE TREASURER'S FILES

The treasurer should have a separate file where he can keep all of the documentation relating to the group's financial affairs. This would include bills that have been paid, receipts, financial statements, and, of course, the journals.

The file might be a portable accordion file that can be bought at a stationery store, or it might be a drawer in the group's filing cabinet.



But it should definitely be separate from the group's general files or else it will be very easy for things to get lost or misplaced. In addition to the separate file, it is a good idea for the treasurer to buy a binder in which to keep the journal pages.

All bills should be filed for future reference. They can be filed according to the individual suppliers' names. Or a separate file could be opened for each month, and all the bills paid that month placed in that file. The treasurer can decide which is the best method for the group.

All financial records--journals, cancelled cheques, bank statements, financial statements, bills--should be kept in the files from one year to the next. Never destroy financial records. According to the law, an organization must keep its records for at least six years, and even then can only destroy them with government permission.

## CHANGING OVER TO THIS SYSTEM

A group may be using a different bookkeeping system and the treasurer may want to change over to the system described in this report. Generally this will be an easy process, although it will depend on the kind of bookkeeping system which the group already has.

The easiest time to change bookkeeping systems is at the end of an accounting period. Usually this means at the end of the year. If the system is changed at this time it won't be necessary to prepare financial reports on the basis of two different systems.

The most important step is to calculate the true bank balance on the first day of the first month in the new accounting period. This should be entered into the cheque stubs and will be the start of the running balance in the stubs. This opening true bank balance can be computed by taking the bank statement for the month preceding the new accounting period, subtracting the amounts of all outstanding cheques, and adding the outstanding deposits, if any.

Keeping these two things in mind, the change-over should offer no problems. Of course there may be special circumstances for some groups and it would be very difficult to cover all of these here. If the treasurer has any questions on how to change over to this system, he should seek the advice of someone experienced in bookkeeping--an accountant, for instance, or the bookkeeper of a local social agency.

## SUMMARY OF THE BASIC BOOKKEEPING SYSTEM

Before discussing some of the bookkeeping problems that may be encountered by the more advanced group, it may be useful to summarize the system which has already been described. It should be stressed that this basic system can form the foundation of a bookkeeping system for almost any group, no matter how sophisticated its needs.

### I. The Chequing Account

- A. Every group should have a chequing account, which will usually be a current account.
- B. All income, without exception, should be deposited into the chequing account.
- C. Payments should generally be made by cheque, with the exception of small payments and some reimbursements to members which may be paid more conveniently through petty cash.
- D. Cheque stubs should be filled out completely each time a cheque is written and a running balance should be kept on the stubs.

### II. The Journals

All financial transactions should be recorded in one of the journals. There are three basic journals:

- The Receipts Journal in which all income is recorded.
- The Cheque Disbursements Journal in which all payments by cheque are recorded.
- The Petty Cash Journal in which all payments made by cash are recorded.

### III. Cheque Disbursements Journal

- A. There should be a separate page for each month.
- B. The first four columns ('a' through 'd' in Figure 4 on page 12) should always record, in this order, the date, name of payee, cheque number, and amount of cheque. The amount-of-cheque column is always headed by the word

"Bank". The rest of the columns on the page are flexible and will record whatever categories of expenses are used most by the group. The two right-most columns are always the Sundry columns and are used to record expenses for which no separate column has been opened.

- C. At the end of each month the columns should be totalled only after the month's bank statement has been received and the service charges entered into the journal. The charges should also be deducted from the running balance on the cheque stubs.
- D. When the columns are totalled, the sum of all the columns to the right of the bank must equal the total of the bank column.
- E. After the bank statement is received, the treasurer should compare the cancelled cheques with the bank statement. The treasurer should also verify the accuracy of all entries on the statement by comparing the returned cheques with the entries in the Disbursements Journal. Then he should determine which cheques are outstanding. Finally a Bank Reconciliation Statement should be prepared and entered on the journal page.
- F. When the Bank Reconciliation Statement is completed, the treasurer should paper clip the cancelled cheques to the statement and file them for future reference.

#### IV. Receipts Journal

- A. There should be a separate page for each month.
- B. The first four columns are the same as those in the Cheque Disbursements Journal, except for the Cheque number column which is left blank. The other columns will depend on the types of income of the group. The two right-most columns are for Sundry.
- C. The columns should be totalled at the end of each month.

## V. The Petty Cash Journal

- A. The same rules apply regarding separate monthly sheets and totals as above.
- B. Use of the first four columns is the same as for the Cheque Disbursements Journal except that Cheque Number becomes Voucher Number, and Bank becomes Petty Cash Paid. Again, the rest of the columns are up to the group and the two right-most columns are for Sundry.
- C. The petty cash account should be reconciled monthly and the reconciliation statement entered onto the month's journal page.

## VI. The Petty Cash Fund

- A. One member of the group should be the custodian of the fund.
- B. Every payment out of the petty cash fund must be accompanied by a completed petty cash voucher. Vouchers which have been paid should be kept in the petty cash box.
- C. The fund is reimbursed by totalling the amounts on the vouchers in the box and issuing a cheque in this amount to the custodian of the fund. The vouchers should then be removed from the box and filed by the treasurer.
- D. The fund should never be used for loans or for cashing members' cheques.

## VII. Summary Sheets

- A. Separate summary sheets should be prepared for each of the three journals. The reporting period being summarized is usually from the start of the year to the month just completed.
- B. The headings for the columns of each summary sheet are taken directly from the headings used in the respective journals.
- C. Totals of each journal column for each month in the reporting period are transferred to the summary sheets and then the columns of the summary sheet are totalled.



- D. The Sundry column has to be separately summarized to break it down into categories of expenses or receipts.

#### VIII. The Financial Statement

- A. The Financial Statement has three parts
- statement of income
  - statement of expenses
  - balance remaining.
- B. The column totals in the month's journal pages and in the summary sheets give all the information needed for a financial statement, which is really only a re-listing of these totals.
- C. The Petty Cash column of the Disbursements Journal and the Petty Cash Paid column of the Petty Cash Journal should be entirely ignored in preparing the statement.
- D. If the same category of expense occurs in the Disbursements and Petty Cash journals, the amount in the statement for this category is the sum of the two totals.
- E. The balance remaining should always be the sum of the true bank balance and the petty cash on hand at the end of the month.

## Bookkeeping for the more advanced group

This system of financial records has thus far been discussed in terms of a group having small expenses and no staff. Its income has been from donations and from the proceeds of arts and crafts sale, and its modest expenses equally simple. If such a group is to expand its program, it is a major jump from here to the staff-and-storefront level of an action-oriented service organization. This type of program involves substantial operating costs and all of these must be carefully anticipated in the preparation of its budget. But the bookkeeping system itself can be easily expanded to meet this expanded program. The only significant new element will be that of the payroll.

### PREPARING A BUDGET

The submission of an application for funds--whether to the government, a church, a community fund, or a foundation--usually must be accompanied by a detailed budget, setting forth how the grant is to be used. The budget is important because it gives an indication to the funding source of the group's ability to plan and manage its affairs. Therefore it should be put together with some care.

Some funding sources specify what categories of expenses, and what degree of detail, they require in a budget proposal. If a proposal is being prepared for a specific funding source, the first thing to do is ask the grants officer or other official what guidelines the funding source has. It is also worth determining what the usual size of grants from the source has been to other similar groups, since this will give an indication of the maximum size of grant that might reasonably be expected.

If the funding source has no guidelines, or if the budget is being prepared for a more general purpose, the group is on its own. In any case the first step is to carefully examine what the group is doing, and what it is proposing to do, and then determine what types of expenses are to be incurred in such activity.

For example, suppose that in late 1975 the Citywide Action Group began planning for a Housing Advocacy Centre to which tenants could call if they were having problems with their landlords. The Centre would be manned by a full-time staff of four workers, so salaries would be a budget item. Obviously telephones would be needed. An office in a storefront would be useful so rent would have to be budgeted for. An empty office would be difficult to work in so furniture would be

necessary. The group was planning a Housing Advocacy Newsletter so the rental of a mimeograph machine would be useful. And the group needed a new typewriter (rented). And so on. The left-hand column of Figure 24 on page 54 shows the complete list of expenses which the Citywide Action Group developed for their Housing Advocacy Centre.

Once the list of items is determined, the group will have to estimate costs. The amounts should be estimated according to the goals and objectives of the project and the plan the group has developed to meet these goals. There is only one basic rule to keep in mind. Be realistic. On the one hand that means not creating padded budgets. Budgets that have grossly inflated figures do not go over well with funding sources. On the other hand, it means that the budget should not be so tight that one unexpected expense could ruin the whole thing. A reasonable leeway for the unexpected is a good idea.

Take the item of rent for a storefront. A member of the group should probably go around to a few vacant storefronts in the area in which the group wants to open theirs, and determine what kinds of rents are being charged. He should note carefully whether utilities (electricity, water, heat) are included in the rent. If these are not included, he might ask occupants of adjacent stores or previous tenants how much they pay for these. These enquiries would probably give a good idea of how to estimate occupancy costs (rent and utilities).

For an item like a telephone, the group should determine the monthly service charges for a business line--which are higher than for a private line--and how many lines they will need. They should ask the phone company about installation charges. They should try to figure out if they will be making many long distance phone calls and budget for these.

There are some budget items which are often forgotten so it may be worthwhile mentioning a few:

- Employer's expense for the Canada Pension Plan (CPP)  
Unemployment Insurance (UI)  
Health Insurance (if required)  
These will be discussed further in the section on Payroll.

- Workmen's Compensation For unincorporated nonprofit community groups engaged in clerical work, coverage by Workmen's Compensation is on a voluntary basis. More information and application forms are available by calling the New Business Section of the Workmen's Compensation Board at (416) 965-8646.

- Holiday pay. Provision for holiday pay is required by law. Generally holiday pay can be provided in extra pay where no holiday is actually taken or in time off with regular pay. The Ministry of Labour Employment Standards Branch should be contacted regarding the laws. (See For Further Reference).
- Telephone installation costs. Telephone companies may also require a deposit for the installation of the phone for an organization.
- Utilities. (if not included in rent) Utility companies may also require a deposit.
- Bookkeeping, accounting and legal services. A group should consider budgeting for the services of an accountant and a lawyer, if needed.
- Insurance. The group might consider insurance to cover losses from fire, theft, vandalism.
- Bank charges.

The group should keep on file all of the relevant information on how the budget amounts were determined. This is for two reasons:

- in case the funding sources ask for justification of an amount
- to assist the group when it actually receives the funds and starts spending the money.

In presenting the budget, expenses should be grouped into the same categories that are used in the journals and in the financial statements. This will make it easier to draw comparisons between the anticipated expenditures described in the budget and actual expenditures.

Figure 24 shows the budget which was prepared by the Citywide Action Group for their Housing Advocacy Centre:



Figure 24

Citywide Action Group  
Budget for  
Housing Advocacy Centre  
for the period January 1 to December 31, 1975

Wages and Salaries

Project Coordinator (\$125 per week)	\$ 6,500.	
3 staff workers (\$100 per week each)	15,600.	\$ 22,100.

Employer's CPP expense

338.

Employer's UIC expense

310.

Holiday Pay (In Ontario 4% of gross wages)

884.

Rent, Utilities and Services

Rent for storefront office (\$150 per month, including heat and water)	\$ 1,800.	
Electricity (\$15 per month; no deposit required)	180.	
Telephone (Two lines at \$20 per month each; long distance at \$10 per month; installation charge of \$35)	635.	
Insurance for office	200.	2,815.

Office Supplies and Expenses

General office supplies - paper, pens, envelopes, etc. (Initial purchase of \$300; then \$25 per month)	\$ 600.	
Mimeograph rental (\$30 per month)	360.	
Typewriter rental (\$20 per month)	240.	
Adding machine rental (\$17 per month)	204.	1,404

Equipment and Furniture

Furniture for office (3 desks at \$50 each; 10 chairs at \$10 each; 3 long tables at \$15 each; 2 filing cabinets at \$40 each; one typing stand at \$15 - all furniture bought used).		390.
--	--	------

Meals and Transportation

(For volunteers <u>only</u> ) (\$30 per month)		360.
--	--	------

Babysitting

(For volunteers <u>only</u> ) (\$60 per month)		720.
--	--	------

Purchased Services

Lawyer's and Accountant's fees		750.
--------------------------------	--	------

Bank Charges

(\$5 per month)		60.
		\$ 30,131.

NOTE: In Ontario, contribution to Workmen's Compensation is voluntary for a non-profit organization engaged solely in office work.

## PAYROLL

As soon as an organization begins to hire employees, the treasurer should open a fourth journal, called the Payroll Journal. This is used to record total wages (gross wages) paid to each employee, the deductions which are made from gross wages, and the resultant take-home pay (net wages).

By law all employers must make certain deductions from the wages of their employees. These are called statutory deductions and include income tax, Canada pension plan, unemployment insurance, and, if applicable, health insurance. It is the legal obligation of every employer to deduct appropriate amounts for each of these from the gross wages of its employees and then to pay (or remit) monthly the amounts so deducted to the government.

For the moment we will put aside the question of how to determine the amounts of each of these statutory deductions and concentrate on how the Payroll Journal should be used.

The Payroll Journal is kept on the same kind of sheets as the other journals. The first three columns record the date of payment, the name of the employee, and the cheque number. The next column records the gross wages. Then there are columns for each of the statutory deductions, followed directly by a column for total deductions which is simply the sum of the amounts in the deductions columns. Finally there is a column for net wages which will be headed by the words "Payroll Clearing (net wages)."

The group should establish a schedule of paydays, and as a general rule these should be the only days on which wages should be paid. The most common system is to specify each Friday as a payday, except when Friday is a holiday and then the preceding Thursday is used.

Since all employees are paid on paydays, entries in the Payroll Journal will be made in groups on the same day. Before the first entry in each of these payday groups, the treasurer should write in the period for which wages are being paid. After all of the wages and deductions have been recorded for the pay period, the columns should be totalled. The reason for totalling the columns each payday instead of waiting until the end of the month, as with the other journals, is just to guarantee that no mistake is made in calculating the net wages of an employee.

As an example, suppose the Citywide Action Group received its grant for the Housing Advocacy Centre and began to employ four persons on January 1, 1976. The first pay period was the week of January 5. NOTE: In Ontario, employers of from six to fourteen employees may decide to form a group to facilitate health insurance payroll deductions. Employers of over fourteen persons are required to do so. Those employing less than six may not do so. In our example then, health insurance deductions will not be made.

Figure 25

CITYWIDE ACTION GROUP PAYROLL JOURNAL JANUARY 1976										
LITHOGRAPHED IN PERMANENT INK										
5 NO. 58 872 8 COLUMN	DATE	NAME	CHANGE #	GROSS WAGES	INCOME TAX LIABILITY	CANADA PENSION LIABILITY	UNEMPLOYMENT INSURANCE LIABILITY	TOTAL DEDUCTIONS	PAYROLL CLEARING (NET PAY)	
1										1
2	FOR THE PERIOD JANUARY 1 - 5, 1976									2
3										3
4	1976 JAN 5	GEORGE ALLO	98	100.00	13.40	1.59	1.00	15.99	89.01	4
5	5	HELENE LEFEBVRE	99	75.00	NIL	1.14	.75	1.89	73.11	5
6	5	THOMAS BROWN	100	100.00	7.70	1.59	1.00	10.29	89.71	6
7	5	IDA WALKER	101	125.00	18.45	2.04	1.25	21.74	103.26	7
8										8
9				400.00	39.55	6.36	4.00	49.91	350.09	9
10										10
11										11
12										12
13										13
14										14
15										15
16										16
17										17
18										18
19										19
20										20
21										21
22										22
23										23
24										24
25										25
26										26
27										27
28										28
29										29
30										30

Note that the total expense for wages incurred by the group is shown under the Gross Wages column. This is how much the group is really spending for wages. However, it is obviously not the amount which the employees are taking home, because of the deductions. It is the amount of this take-home, or net, pay (as recorded in the Payroll Clearing column) for which cheques are written on payday. The difference between gross and net wages, which is the sum of the deductions, will have to be paid by the group at the end of the month to the government. So although this money is not paid out at the same time as net pay, it is nonetheless a debt which the group will have to honor. For this reason each of the deduction columns is given a heading that ends with the word "liability"--which means debt.

As well as being recorded in the Payroll Journal, the cheques will also have to be entered into the Cheque Disbursements Journal. The amount of each cheque is entered under the Bank column and under a new category of disbursement to be called Payroll Clearing. The Sundry column could be used to record payroll clearing, but if the treasurer has to record a considerable number of pay cheques each month it would probably be easier to open a separate column.

The Cheque Disbursements Journal entry for the Citywide Action Group example just described looked like:

Figure 26

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL JANUARY 1976											
LITHOGRAPHED IN PERMANENT INK											
STERLING	DATE	NAME	CHEQUE NO.	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	BARBERSHOP	PETTY CASH	PAYROLL CLEARING	SUNDRY	AMOUNT
NO. 58 872 8 COLUMN	1	5	GEORGE AUG	98	8401				8401		1
	2	5	HELENE LEBLANC	99	7311				7311		2
	3	5	THOMAS BROWN	100	8971				8971		3
	4	5	IDA WALKER	101	10326				10326		4
	5										5
	6										6
	7										7
	8										8
	9										9
	10										10
	11										11
	12										12
	13										13
	14										14
	15										15
	16										16



On the last payday of the month the treasurer has to bring together the summaries for each payday in the month into a total monthly payroll summary. This should be done in the Payroll Journal under the last entry in the month, or, if there isn't room, on a separate page which is kept in the Payroll Journal section.

The monthly payroll summary is done just like the summary sheets described before, except that the reporting period is the month just completed. Totals of gross wages, deductions, and payroll clearing for each pay period are transferred to one line of the monthly summary. The columns of the summary are then totalled. The resulting amounts show total gross and net wages paid during the month, plus the amount of liability the group has incurred for income tax, Canada pension plan (CPP), unemployment insurance (UI), and, if applicable, health insurance.

The Citywide Action Group issued a payroll on each Friday in January. At the end of the month the treasurer prepared the following payroll summary:

Figure 27

CITYWIDE ACTION GROUP									
PAYROLL JOURNAL									
JANUARY 1976									
DATE	NAME	CHECK #	GROSS WAGES	INCOME TAX LIABILITY	CANADA PENSION PLAN LIABILITY	UNEMPLOYMENT INSURANCE LIABILITY	TOTAL DEDUCTIONS	PAYROLL CLEARING (NET PAY)	
1976									1
									2
									3
									4
									5
									6
									7
									8
									9
									10
									11
									12
									13
									14
									15
									16
									17
									18
									19
									20
									21
									22
									23
									24
JANUARY 1976 SUMMARY									
JAN 5 PERIOD	JAN. 1-5		400.00	39.55	6.36	4.00	49.91	350.09	
JAN 12 PERIOD	JAN. 6-12		415.00	42.15	6.60	4.15	52.90	362.10	
JAN 19 PERIOD	JAN. 13-19		415.00	42.15	6.60	4.15	52.90	362.10	
JAN 26 PERIOD	JAN. 20-26		370.00	38.95	6.20	3.90	49.05	340.95	
			<u>1620.00</u>	<u>162.80</u>	<u>25.76</u>	<u>16.20</u>	<u>204.76</u>	<u>1415.24</u>	

As can be seen from this summary, the Citywide Action Group owed the government \$204.76 for deductions made from its employees' wages. The group, however, had to pay even more to the government.

According to the law, in addition to simply remitting CPP deductions from their employees, employers must pay the government an extra amount equal to the total deductions from their employees for CPP. This is called the employer's CPP expense. In our example, the Citywide Action Group had deducted \$25.76 from its employees for CPP. Therefore the group had to match this, paying the government an additional \$25.76 beyond the total deductions of \$204.76. And this is still not all.

The law also requires employers, in addition to remitting UI deductions from their employees, to pay an extra amount equal to 1.4 times the total deductions from their employees for UI. This is called the employer's UI expense. The Citywide Action Group had deducted \$16.20 for UI, so its UI expense was  $1.4 \times \$16.20$  or \$22.68. This brought the total due the government to \$253.20, broken down as follows:

Income tax liability (deduction)	\$162.80
CPP liability (deduction)	25.76
Employer's CPP expense	25.76
UI liability (deduction)	16.20
Employer's UI expense	<u>22.68</u>
	<u><u>\$253.20</u></u>

The total amount due for the income tax liability, CPP liability, UI liability, employer's CPP expense, and employer's UI expense is paid by one cheque made out to the Receiver-General for Canada. The total payment for each month must be made before the fifteenth of the following month. So in our example the Citywide Action Group had until February 15 to pay the January amount due. It is a good practice to make this payment on the last business day of the month, so the employer's CPP and UI expense can be entered into the month's financial statement.

A group making payment for the first time must send the cheque, along with a letter giving some necessary information, to the federal Department of National Revenue (Taxation) in Ottawa. Call your local District Taxation Office to obtain the address and a list of the required information. Or ask the Office to send you the booklet Income Tax Deductions at

Source, which you will need anyway, and which has detailed instructions on making payments.

Where health insurance payments are also to be made, these are always payable to the provincial government. These must not be included in the payment to the Receiver-General for Canada.

The Cheque Disbursements Journal entry to record the payment of all of these liabilities and expenses is slightly complicated. The Bank column will contain the entire payment to the Receiver-General, while the Sundry column will be used to give a breakdown into the separate amounts for each of the three liability and two expense categories. The entry for the Citywide Action Group payment for January was:

Figure 28

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL JANUARY 1976											
LITHOGRAPHED IN PERMANENT INK											
SERIAL NO.	DATE	NAME	CHEQUE NO.	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	SALES TAXES	PARTY CASH	PAID TO CLEARING	SUNDY DESCRIPTION	AMOUNT
1	1976										
2											
3											
4											
5											
6											
7											
8											
9											
10											
11											
12											
13											
14											
15											
16											
17											
18											
19											
20											
21	JAN 31	RECEIVER-GENERAL	122	25320						WAGES THE LIABILITY C.P.P. EMPLOYER'S C.P.P. EXPENSE U.I. LIABILITY EMPLOYER'S U.I. EXPENSE	16280
22											2576
23											2576
24											1620
25											2268
26											
27											
28											



In the financial statement, the treasurer must show all of the new expenses involved in having employees. These include gross wages, employer's CPP expense, employer's UI expense, and employer's health insurance expense, if applicable.

This means that the only column in the Payroll Journal and Payroll Summary which should be used in preparing the financial statement is the Gross Wages column. All of the other columns (Payroll Clearing and Income Tax, CPP, UI and Health Insurance Liabilities) should be ignored, since the total of all these is the Gross Wages amount. Likewise, the only entries in the Cheque Disbursements Journal and Summary that are used in the financial statement are the employer's CPP expense, employer's UI expense, and employer's health insurance expense. The Payroll Clearing and the liability entries should be disregarded.

Now we can come back to the question of how much to deduct for each of the statutory deductions. Since they are all different, we will look at each separately.

#### Income Tax

As soon as an employee is hired he must complete a TD-1 form Employee's Tax Deduction Return. This form records the employee's name, address, social insurance number, birth date, and total claim for exemptions (the amount of income he can earn and still be exempt from income tax). The deduction for income tax depends entirely on the employee's wages and the amount of personal exemption he claims on his TD-1. For this reason it is very important that the completed TD-1 forms are kept on file by the treasurer. Blank TD-1 forms can be obtained from any District Taxation Office of the federal Department of National Revenue (Taxation). TD-1 forms are important documents and must be filled in correctly. Ask your Taxation office should you have any questions.

National Revenue publishes a booklet which lists income tax deductions according to wages and personal exemption: Income Tax Deductions at Source. This was referred to earlier, and there are separate editions for each province. It is available without charge from any District Taxation Office and the treasurer should make sure he has a copy on hand before anyone is hired. It should be noted that for purposes of calculating income tax deductions, "wages" means gross wages less deductions for CPP and UI.



At the end of each year an employer must issue T4 slips to everyone who has worked for him during the year. T4 slips are statements of total earnings and deductions. They must be completed by the last day of February of the following year. Employers must also complete a T4 Summary form which goes to the Department of National Revenue. T4 slips and T4 Summary forms are sent automatically by National Revenue to all employers along with instructions on how to complete them.

### Canada Pension Plan

Deductions for Canada pension plan are calculated as a percentage of income. The employee must pay 1.8% of gross annual wages in excess of \$700., up to a maximum contribution of \$120.60. (Note: this maximum applies only in 1975 and is usually increased annually.) Unless an employee makes less than \$13.46 a week, CPP deductions must be made from his wages.

This sounds confusing, but fortunately no calculations are needed to figure out CPP deductions. National Revenue publishes another free booklet called Canada Pension Plan and Unemployment Insurance Premium Tables which gives the required deduction for each level of gross wages. The treasurer should be sure to get a copy of this booklet as well.

### Unemployment Insurance

The rate at which the employee's premium will be calculated is 1.4% (which will amount to \$1.40 on every \$100) of insurable earnings.

If an employee earns less than \$37 per week, no unemployment insurance deductions are made. (This minimum will be reflected proportionately for longer pay periods such as bi-weekly or monthly). Unemployment insurance deductions are made on insurable earnings of \$38 - \$185 per week.

The actual amount of premiums to be deducted from each employee's salary is determined by using the Unemployment Insurance Premium Tables supplied in the booklet mentioned previously, Canada Pension Plan and Unemployment Insurance Premium Tables available from Revenue Canada's District Taxation offices.

When employees leave, the employer must give them a Separation Certificate which they can use to establish eligibility for unemployment insurance benefits. This certificate must be given within five days of the separation. Blank Separation Certificates can be obtained by calling the local Unemployment Insurance Commission office.

## Health Insurance

The Ministry of Health will advise you of the provincial laws regarding health insurance. However, if your business employs 15 or more people, the Ontario Health Plan requires you to provide for group participation. Specific payroll deductions will have to be made.

A free booklet entitled "Handbook for Groups" is available from the Ontario Health Insurance Plan offices.

## A Note on Honorariums

Groups sometimes make payments to members, and they call this payment an honorarium. This term is generally used to mean one or another of two quite different things. Sometimes it can mean a reimbursement for expenses involved in doing volunteer work for the group (babysitting, meals and transportation). Other times it is used to mean a more general payment in recognition of the value of the work that has been done, in which case it is somewhat like a salary.

Groups should avoid calling any payments honorariums. If the person receiving the money is on welfare, the welfare department may insist that the money is income and therefore affects the level of assistance. Also, the federal government may view the payments as wages and therefore liable to income tax, Canada pension plan and unemployment insurance.

The payment should be called, and recorded in the journals, for what it really is. If it is a reimbursement for expenses actually incurred, then the payment should be for the amount of these expenses—substantiated, where possible, by receipts, and recorded under the appropriate category of expense in the journals. This will eliminate any question that the payment was wages. If on the other hand it is meant as wages, call it that.

## INCORPORATION

Incorporation is a legal process whereby an organization is recognized by government as a corporate individual, having many of the same legal rights and obligations as a person. The primary advantage of incorporating a group is limited liability, which simply means that no member of the group is responsible for the debts or other obligations of the group.

Certain funding sources require that an organization be incorporated before they will make any grants to it. Many funding sources, particularly private foundations tend to see incorporation as a sign of a group's stability, and thus may be more inclined to make grants to incorporated groups.

Each province has its own laws regarding incorporation. There are also federal incorporation laws. All make a distinction between profit-making and non-profit corporations. Most groups who want to be incorporated will do so under provincial law as a non-profit corporation.

If a group plans to be incorporated it should see a lawyer. Legal papers will have to be filed and fees paid. If a group can't afford to pay regular lawyers' fees, it should try to find a lawyer who will volunteer his time, or perhaps go to a legal service clinic if there are any in the community.

An incorporated group will have certain legal responsibilities, such as filing an annual statement giving names of the directors and appointing auditors. A lawyer can advise the group on these obligations and assist the group to carry them out.

## CHARITABLE REGISTRATION

Donations made to charitable organizations which are recognized and registered as such by the federal government, are deductible from the income on which individuals and corporations must pay income tax. A group may well find that fund-raising will be easier if it can issue receipts which donors can use to obtain tax-deductions for their donations. As well, private foundations are generally restricted by law to making grants only to registered charitable organizations.

A group must be incorporated before it can be registered. Registration of charitable organizations is the sole responsibility of the federal government through its Department of National Revenue (Taxation). They must be satisfied that the purposes and activities qualify it as a charitable organization. Information on registration can be obtained from your local office of this department.

Any group that plans on being registered should do so with the help of a lawyer. There are rigid restrictions on the types of activity which a charitable organization can engage in. Some groups may find that these restrictions will be too confining and not worth the advantages of registration. A lawyer can advise the group whether it should try for registration and how to do it.

## AUDIT

An audit is an examination of a group's financial records to determine their accuracy. Usually an auditor will carefully look over the journals of the group, verify that the entries correspond with the cancelled cheques and receipts, and perform several other checks to test the accuracy of the financial records.

In business, and among many organizations, it is a normal practice to have the books audited periodically, usually once a year. By law, the books of a corporation must be audited annually. Many funding sources require that the financial records of groups to which they make grants be audited, and that a report on the audit be submitted to them.

The important thing about an audit is that as long as the group has kept its books accurately and honestly, it has nothing to worry about. In preparing for an audit the treasurer should make sure he has gathered together all of the financial records for the period being audited. Then he will have available whatever the auditor will want to see.

During the audit the treasurer may have to answer questions about what expenditures were for. He may have to produce documentation—cancelled cheques, receipts, bills—to substantiate expenditures. If the treasurer has kept his books according to a standard bookkeeping system, such as the one described in this handbook, and if he isn't trying to hide an improper use of funds, the audit should be a straightforward process. In general, the group should benefit from the audit since it will then have an independent statement as to the accuracy of its financial records.



## CONCLUSION

This handbook has tried to describe a bookkeeping system which will be of use to most citizen groups. Naturally it could not cover the bookkeeping needs of every group and a great many questions have had to go unanswered. No short handbook of this kind could conceivably cover all the questions.

Most community groups operate on very limited funds. Their total income is derived from small donations obtained from churches, unions, civic organizations and individuals. Or from membership dues, and from the proceeds of special fund-raising events such as a local craft exhibition, dance or amateur games. The basic bookkeeping system outlined in the first part of this report should answer the questions which they will encounter in maintaining financial records suited to their needs.

Groups whose activities expand substantially beyond this level will have additional needs which they will want their financial records to meet. In the second part of this report we have described the most common bookkeeping need of a more advanced group, the payroll record, as well as some other subjects of importance.

Depending on the kind of activity in which a group is engaged, the sources of its income, the nature of its expenses, the requirements of its funding sources and its members, many additional different needs might arise. For example, at the end of an accounting period a group might have to deal with accruals. These are expenses incurred during one accounting period for which bills will not be received until the next, and bills which remain unpaid at the end of a period. A coöperative may need to keep accounts receivable and accounts payable journals. A group engaged in a small business activity might need a purchases journal. And many other examples could be given.

To design a bookkeeping system that is perfectly tailored to its needs, a more advanced group should have access to the services of an accountant. If a group is operating on a limited budget, it should try to find an accountant who can volunteer some time. A local social agency, business school, or Institute of Chartered Accountants are all good places to try. If a group is applying for a substantial grant, it should budget for the services of an accountant.

It is the intention of this handbook to provide a solid base on which a group can build its bookkeeping system. We realize, of course, that many groups will continue to use their own systems. As we have already

said, this handbook is only a guide and in no way represents a system groups have to use. However we hope those groups that choose to use this system will find this handbook helpful and that they will have an easier time managing their funds.

## For further reference

Canadian Standards of Accounting and Financial Reporting for Voluntary Organizations, available from the United Community Fund of Greater Toronto for a nominal cost.

Community Funds and Councils of Canada, Functional Budgeting for Canadian Voluntary Organizations, 1972. Also available from the United Community Fund of Greater Toronto for a nominal cost.

Ministry of Consumer and Commercial Relations, Starting a Small Business, Queen's Park, 1975

Ministry of Health, Handbook for Groups, Queen's Park, 1972

Ministry of Labour, Employment Standards Act bulletin, Employment Standards Branch, Queen's Park, 1975

Revenue Canada (Taxation), Canada Pension Plan and Unemployment Insurance Premium Tables, Ottawa, 1975

Revenue Canada (Taxation), Income Tax Deductions at Source (for the Province of Ontario), Ottawa, 1976

Workmen's Compensation Board, Claims Information for Employees and Employers, Toronto, 1975

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\_\_\_\_\_, A Summary of the Workmen's Compensation Act Ontario, Toronto, 1975

## Other publications available

Other publications available from:

Leadership program

Multiculturalism and Citizenship Division

Ministry of Citizenship and Culture

5th Floor, 77 Bloor St. W.

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Resources for Community Groups \*

Getting People Together \*

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Bookkeeping Procedures for Community Groups \*

Notes for Community Leaders

The Community

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